



uPHONGOLO Local Municipality
Annual Financial Statements
for the year ended June 30, 2020

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

General Information

Nature of business and principal activities

Local Municipality

Members of Council

Executive committee

Cllr BC Nhlabathi - Honourable Mayor
Cllr B Mvelase - Honourable Deputy Mayor
Cllr VG Masuku - Honourable Speaker
Cllr KE Nxumalo
Cllr EN Buthelezi (Resigned)

Councillors

Cllr IA Stokfeer
Cllr PS Ntshangase
Cllr FF Simelane
Cllr N Mntungwa - MPAC Chair
Cllr NJ Mkhwanazi
Cllr NT Mavimbela
Cllr CB Ndlangamandla
Cllr BC Gumbi
Cllr SV Ndlangamandla
Cllr NE Nxumalo
Cllr D Nyawo
Cllr JS Myeni
Cllr DM Nkanjabanga
Cllr SR Ntshangase
Cllr JC Theron
Cllr BR Shongwe
Cllr VM Sikhosana
Cllr MS Masuku
Cllr GH Mpanza
Cllr JW Buthelezi
Cllr AZ Thabethe
Cllr NP Mavuso
Cllr TA Ntshangase
Cllr PS Sibeko

Grading of local authority

Grade 2
Low capacity

Municipal Manager

Mr WM Nxumalo

Chief Financial Officer

Mr JV Nkosi

Registered office

61 Martin Street
Pongola
3170

Postal address

PO Box 191
Pongola
3170

Bankers

First National Bank

Auditors

Auditor General South Africa

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Index

The reports and statements set out below comprise the annual financial statements presented to the Council:

	Page
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Statement of Comparison of Budget and Actual Amounts	8 - 12
Accounting Policies	13 - 35
Notes to the Annual Financial Statements	36 - 71

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
mSCOA	Municipal Standard Chart of Accounts
CIGFARO	Chartered Institute of Government Finance, Audit & Risk Officers

**Director
Designation**

Accounting Officer's Responsibilities and Approval

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was give unrestricted access to all financial records and related data. The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practise (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Boards

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

I **WM Nxumalo** acknowledges that I am ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable me to meet these responsibilities, I have sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

I am of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

I have reviewed the municipality's cash flow forecast for the year to **30 June 2020** and, in the light of this review and the current financial position, I am satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the community and state for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the uPhongolo Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements have been audited by the municipality's external auditors.

The annual financial statements set out on pages 4 to 69, which have been prepared on the going concern basis, were approved and signed by the accounting officer on 31 **October 2020**.

Mr WM Nxumalo
Municipal Manager

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Financial Position as at June 30, 2020

Figures in Rand	Note(s)	2020	2019
Assets			
Current Assets			
Statutory Receivables from non-exchange transactions	8	89,072,240	75,128,012
VAT receivable	9	929,885	1,621,626
Prepayments	7	209,968	7,113
Receivables from exchange transactions	10	12,309,441	10,412,111
Cash and cash equivalents	11	29,282,710	7,166,586
		131,804,244	94,335,448
Non-Current Assets			
Investment property	2	70,590,000	67,831,000
Property, plant and equipment	3	321,168,865	313,972,652
Intangible assets	4	2,233,073	453,077
Heritage assets	5	70,945	70,945
		394,062,883	382,327,674
Non-Current Assets		394,062,883	382,327,674
Current Assets		131,804,244	94,335,448
Total Assets		525,867,127	476,663,122
Liabilities			
Current Liabilities			
Finance lease obligation	12	2,418,783	2,049,416
Payables from exchange transactions	17	58,623,799	54,698,419
Consumer deposits	18	1,995,512	2,085,697
Unspent conditional grants and receipts	13	10,919,270	7,057,388
Provisions	14	152,226	85,000
Long term loans- current portion	16	4,002,568	4,000,070
		78,112,158	69,975,990
Non-Current Liabilities			
Other financial liabilities		341,542	341,542
Finance lease obligation	12	1,086,772	3,363,976
Employee benefit obligation	6	1,972,226	2,120,384
Provisions	14	7,046,054	7,002,686
Long- service awards	15	1,382,878	1,294,001
Long term loans- long term portion	16	2,710,586	2,655,301
		14,540,058	16,777,890
Non-Current Liabilities		14,540,058	16,777,890
Current Liabilities		78,112,158	69,975,990
Total Liabilities		92,652,216	86,753,880
Assets		525,867,127	476,663,122
Liabilities		(92,652,216)	(86,753,880)
Net Assets		433,214,911	389,909,242
Accumulated surplus		389,909,242	389,909,242

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019
Revenue			
Revenue from exchange transactions			
Service charges	19	54,517,281	49,948,179
Rental of facilities and equipment	20	611,191	596,657
Interest received (trading)	24	12,118,566	10,905,336
Licences and permits	22	1,077,757	1,476,333
Other income	25	1,451,143	2,345,014
Interest received - investment	26	1,844,995	1,520,370
Total revenue from exchange transactions		71,620,933	66,791,889
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	27	39,633,514	37,520,831
Transfer revenue			
Government grants & subsidies	28	171,836,212	148,640,998
Fines, Penalties and Forfeits	21	2,080,250	1,981,400
Total revenue from non-exchange transactions		213,549,976	188,143,229
		71,620,933	66,791,889
		213,549,976	188,143,229
Total revenue		285,170,909	254,935,118
Expenditure			
Employee related costs	29	(91,937,068)	(83,480,067)
Remuneration of councillors	30	(9,911,851)	(9,716,739)
Depreciation and amortisation	31	(22,986,536)	(13,975,193)
Finance costs	32	(2,041,158)	(2,480,236)
Impairment loss	23	(32,182)	(611,363)
Debt Impairment	33	(14,295,976)	(19,114,494)
Bulk purchases	34	(31,920,342)	(27,756,027)
Transfers and subsidies		(3,293,525)	(316,376)
General Expenses	35	(69,754,749)	(107,953,056)
Total expenditure		(246,173,387)	(265,403,551)
Total revenue		285,170,909	254,935,118
Total expenditure		(246,173,387)	(265,403,551)
Operating surplus (deficit)		38,997,522	(10,468,433)
Loss on unverified assets		-	(332,852)
Fair value adjustments	36	2,759,000	6,671,000
Actuarial gains/losses	6	(158,930)	1,029,542
Profit on sale of capital assets		124,588	-
		2,724,658	7,367,690
Operating surplus/deficit		2,724,658	7,367,690
Surplus (deficit) before taxation		41,722,180	(3,100,743)
Taxation		-	-
Surplus (deficit) for the year		41,722,180	(3,100,743)

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	389,651,737	389,651,737
Adjustments		
Correction of errors	(3,100,743)	(3,100,743)
Changes in net assets surplus for the year	94,316,766	94,316,766
Balance at July 1, 2018 as restated*	480,867,760	480,867,760
Changes in net assets		
Surplus for the year	41,722,180	41,722,180
Total changes	41,722,180	41,722,180
Balance at July 1, 2019	389,909,242	389,909,242
Balance at June 30, 2020	389,909,242	389,909,242

Note(s)

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019
Cash flows from operating activities			
Receipts			
Sale of goods and services		67,491,906	66,880,250
Grants		198,256,624	169,346,504
Interest income		1,838,946	1,520,370
		267,587,476	237,747,124
Payments			
Employee costs		(91,942,295)	(83,336,099)
Suppliers		(110,283,447)	(109,465,836)
Finance costs		(2,041,158)	(2,214,936)
Councillors allowances		(9,911,851)	(9,716,738)
		(214,178,751)	(204,733,609)
Total receipts		267,587,476	237,747,124
Total payments		(214,178,751)	(204,733,609)
Net cash flows from operating activities	38	53,408,725	33,013,515
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(29,330,781)	(24,517,244)
Purchase of other intangible assets	4	(2,019,605)	-
Net cash flows from investing activities		(31,350,386)	(24,517,244)
Cash flows from financing activities			
Repayment of borrowings		(3,394,217)	(4,536,380)
Proceeds on borrowings		3,452,000	2,756,225
Net cash flows from financing activities		57,783	(1,780,155)
Net increase/(decrease) in cash and cash equivalents		22,116,122	6,716,116
Cash and cash equivalents at the beginning of the year		7,166,588	450,470
Cash and cash equivalents at the end of the year	11	29,282,710	7,166,586

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
--	--------------------	-------------	--------------	--	---

Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	53,342,121	-	53,342,121	54,517,281	1,175,160
Rental of facilities and equipment	481,793	-	481,793	611,191	129,398
Interest received (trading)	11,539,463	-	11,539,463	12,118,566	579,103
Licences and permits	1,736,449	50,000	1,786,449	1,077,757	(708,692)
Other income	2,607,000	10,266	2,617,266	1,451,143	(1,166,123)
Interest received - investment	1,406,038	-	1,406,038	1,844,995	438,957
Total revenue from exchange transactions	71,112,864	60,266	71,173,130	71,620,933	447,803

Revenue from non-exchange transactions

Taxation revenue

Property rates	38,740,887	-	38,740,887	39,633,514	892,627
----------------	------------	---	------------	------------	---------

Transfer revenue

Government grants & subsidies	207,241,018	(57,429,918)	149,811,100	171,836,212	22,025,112
Fines, Penalties and Forfeits	1,560,852	200,000	1,760,852	2,080,250	319,398
Total revenue from non-exchange transactions	247,542,757	(57,229,918)	190,312,839	213,549,976	23,237,137

'Total revenue from exchange transactions'	71,112,864	60,266	71,173,130	71,620,933	447,803
'Total revenue from non-exchange transactions'	247,542,757	(57,229,918)	190,312,839	213,549,976	23,237,137
Total revenue	318,655,621	(57,169,652)	261,485,969	285,170,909	23,684,940

Expenditure

Employee related costs	(91,990,402)	2,108,218	(89,882,184)	(91,937,068)	(2,054,884)
Remuneration of councillors	(10,111,519)	(173,446)	(10,284,965)	(9,911,851)	373,114
Depreciation and amortisation	(15,780,000)	2,000,000	(13,780,000)	(22,986,536)	(9,206,536)
Impairment loss/ Reversal of impairments	-	-	-	(32,183)	(32,183)
Finance charges	(1,990,687)	-	(1,990,687)	(2,041,158)	(50,471)
Debt Impairment	(12,518,800)	-	(12,518,800)	(14,295,976)	(1,777,176)
Bulk purchases	(33,315,613)	-	(33,315,613)	(31,920,342)	1,395,271
Contracted Services	(79,203,029)	53,174,036	(26,028,993)	(22,373,958)	3,655,035
Transfers and subsidies	(8,675,930)	3,675,930	(5,000,000)	(3,293,525)	1,706,475
General Expenses	(80,994,031)	24,473,656	(56,520,375)	(47,380,785)	9,139,590
Total expenditure	(334,580,011)	85,258,394	(249,321,617)	(246,173,382)	3,148,235

	318,655,621	(57,169,652)	261,485,969	285,170,909	23,684,940
	(334,580,011)	85,258,394	(249,321,617)	(246,173,382)	3,148,235
Operating surplus	(15,924,390)	28,088,742	12,164,352	38,997,527	26,833,175
Fair value adjustments	-	-	-	2,759,000	2,759,000
Actuarial gains/losses	-	-	-	(158,930)	(158,930)
Profit on sale of capital assets	-	-	-	124,588	124,588

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Figures in Rand					
	-	-	-	2,724,658	2,724,658
	(15,924,390)	28,088,742	12,164,352	38,997,527	26,833,175
	-	-	-	2,724,658	2,724,658
Surplus before taxation	(15,924,390)	28,088,742	12,164,352	41,722,185	29,557,833
Deficit before taxation	(15,924,390)	28,088,742	12,164,352	41,722,185	29,557,833
Taxation	-	-	-	-	-
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(15,924,390)	28,088,742	12,164,352	41,722,185	29,557,833

Reconciliation

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis					
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Figures in Rand					
Statement of Financial Position					
Assets					
Current Assets					
Statutory Receivables from non-exchange transactions	89,463,321	9,000,000	98,463,321	89,072,240	(9,391,081)
VAT receivable	-	-	-	929,885	929,885
Prepayments	-	-	-	209,968	209,968
Consumer debtors	11,251,471	(9,451,000)	1,800,471	12,309,441	10,508,970
Cash and cash equivalents	5,152,000	6,206,533	11,358,533	29,282,910	17,924,377
	105,866,792	5,755,533	111,622,325	131,804,444	20,182,119
Non-Current Assets					
Investment property	93,390,000	17,946,000	111,336,000	70,590,000	(40,746,000)
Property, plant and equipment	437,732,053	(28,383,151)	409,348,902	321,168,865	(88,180,037)
Intangible assets	935,547	(496,369)	439,178	2,233,074	1,793,896
Heritage assets	70,945	-	70,945	70,945	-
	532,128,545	(10,933,520)	521,195,025	394,062,884	(127,132,141)
Non-Current Assets	105,866,792	5,755,533	111,622,325	131,804,444	20,182,119
Current Assets	532,128,545	(10,933,520)	521,195,025	394,062,884	(127,132,141)
Total Assets	637,995,337	(5,177,987)	632,817,350	525,867,328	(106,950,022)
Liabilities					
Current Liabilities					
Finance lease obligation	-	-	-	2,418,783	2,418,783
Payables from exchange transactions	15,374,594	(10,000,000)	5,374,594	58,623,799	53,249,205
Consumer deposits	3,017,833	-	3,017,833	1,995,512	(1,022,321)
Unspent conditional grants and receipts	-	-	-	10,919,270	10,919,270
Provisions	6,905,952	(6,726,000)	179,952	152,226	(27,726)
Long term loans	5,421,253	(1,947,295)	3,473,958	-	(3,473,958)
Long term loans- current portion	-	-	-	4,002,568	4,002,568
	30,719,632	(18,673,295)	12,046,337	78,112,158	66,065,821
Non-Current Liabilities					
Other financial liabilities	-	-	-	341,542	341,542
Finance lease obligation	-	-	-	1,086,772	1,086,772
Employee benefit obligation	-	-	-	1,972,226	1,972,226
Provisions	474,605	8,716,087	9,190,692	7,046,054	(2,144,638)
Long- service awards	-	-	-	1,382,878	1,382,878
Long term loans- long term portion	4,466,666	2,540,000	7,006,666	2,710,586	(4,296,080)
	4,941,271	11,256,087	16,197,358	14,540,058	(1,657,300)
	30,719,632	(18,673,295)	12,046,337	78,112,158	66,065,821
	4,941,271	11,256,087	16,197,358	14,540,058	(1,657,300)
	-	-	-	-	-
Total Liabilities	35,660,903	(7,417,208)	28,243,695	92,652,216	64,408,521
Assets	637,995,337	(5,177,987)	632,817,350	525,867,328	(106,950,022)

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Figures in Rand					
Liabilities	(35,660,903)	7,417,208	(28,243,695)	(92,652,216)	(64,408,521)
Net Assets	602,334,434	2,239,221	604,573,655	433,215,112	(171,358,543)
Net Assets					
Net Assets Attributable to Owners of Controlling Entity					
Reserves					
Accumulated surplus	602,334,434	2,239,221	604,573,655	433,324,920	(171,248,735)

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
--	-----------------	-------------	--------------	------------------------------------	--

Figures in Rand

Cash Flow Statement

Cash flows from operating activities

Receipts

Sale of goods and services	69,062,257	9,405,283	78,467,540	67,491,906	(10,975,634)
Grants	234,127,918	(58,309,082)	175,818,836	198,256,624	22,437,788
Interest income	12,945,501	(9,171,852)	3,773,649	1,838,946	(1,934,703)
Other receipts	8,796,502	(2,410,838)	6,385,664	-	(6,385,664)
	324,932,178	(60,486,489)	264,445,689	267,587,476	3,141,787

Payments

Employee costs	(91,990,402)	2,108,218	(89,882,184)	(91,942,295)	(2,060,111)
Suppliers	(193,038,989)	71,111,966	(121,927,023)	(38,641,765)	83,285,258
Finance costs	(1,990,687)	-	(1,990,687)	(2,459,235)	(468,548)
Remuneration of councillors	(10,111,519)	(173,446)	(10,284,965)	(9,911,851)	373,114
Other payments	(8,675,930)	3,675,930	(5,000,000)	-	5,000,000
	(305,807,527)	76,722,668	(229,084,859)	(142,955,146)	86,129,713

Total receipts	324,932,178	(60,486,489)	264,445,689	267,587,476	3,141,787
Total payments	(305,807,527)	76,722,668	(229,084,859)	(142,955,146)	86,129,713
Net cash flows from operating activities	19,124,651	16,236,179	35,360,830	124,632,330	89,271,500

Cash flows from investing activities

Purchase of property, plant and equipment	(37,324,463)	(8,981,842)	(46,306,305)	(5,484,496)	40,821,809
Purchase of other intangible assets	-	-	-	(2,019,605)	(2,019,605)
Net cash flows from investing activities	(37,324,463)	(8,981,842)	(46,306,305)	(7,504,101)	38,802,204

Cash flows from financing activities

Proceeds from borrowings	6,700,000	(1,300,000)	5,400,000	3,452,000	(1,948,000)
Repayment of borrowings	(3,450,000)	(1,903,584)	(5,353,584)	(3,394,217)	1,959,367
VAT return	-	12,951,923	12,951,923	-	(12,951,923)
Net cash flows from financing activities	(3,450,000)	(1,903,584)	(5,353,584)	(3,394,217)	1,959,367

Net increase/(decrease) in cash and cash equivalents	(21,649,812)	5,350,753	(16,299,059)	113,734,012	130,033,071
Cash and cash equivalents at the beginning of the year	514,902	6,651,684	7,166,586	7,166,588	2
Cash and cash equivalents at the end of the year	(21,134,910)	12,002,437	(9,132,473)	29,282,710	130,033,073

Reconciliation

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below :

The municipality changes an accounting policy only if the change :

- (a) Is required by a standard of GRAP or
- (b) Results in the financial statements providing reliable and more relevant information about the effects of transactions , other events or conditions on the performance or cash flow.

The following GRAP standards have been approved and effective to the municipality :

GRAP 1 Presentation of Financial Statements
GRAP 2 Cash Flow Statements
GRAP 3 Accounting Policies , Changes in Accounting Estimates and Errors
GRAP 4 The effects of Changes in Foreign Exchange Rates
GRAP 5 Borrowing Costs
GRAP 6 Consolidated and Separate Financial Statements
GRAP 7 Investments in Associates
GRAP 8 Interest in Joint Ventures
GRAP 9 Revenue from Exchange Transactions
GRAP 10 Financial Reporting in Hyperinflationary Economies
GRAP 11 Construction Contracts
GRAP 12 Inventories
GRAP 13 Leases
GRAP 14 Events After Reporting Date
GRAP 16 Investment Property
GRAP 17 Property Plant and Equipment
GRAP 19 Provisions , Contingent Liabilities and Contingent Assets
GRAP 20 Related Party Disclosures
GRAP 21 Impairment of Non - Cash generating Assets
GRAP 23 Revenue from Non- Exchange Transactions (Taxes and Transfers)
GRAP 24 Presentation of Budget Information in Financial Statements
GRAP 25 Employee Benefits
GRAP 26 Impairment of Cash- Generating Assets
GRAP 27 Agriculture
GRAP 31 Intangible Assets
GRAP 32 Service Concession Arrangements: Grantor
GRAP 100 Discounted Operations
GRAP 103 Heritage Assets
GRAP 104 Financial Instruments
GRAP 105 Transfer of Functions Between Entities Under Common Control
GRAP 106 Transfer of Function Between Entities Not Under common Control
GRAP 107 Mergers
GRAP 108 Statutory Receivables
GRAP 109 Accounting by Principals and Agents

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been adopted early by the municipality:

GRAP 18 Segment reporting
GRAP 34 Separate Financial Statements
GRAP 35 Consolidated Financial Statements
GRAP 36 Investments in Associates and Joint Ventures
GRAP 37 Joint Arrangements
GRAP 38 Disclosure of Interests in Other Entities
GRAP 104 Financial Instruments (Revised April 2019)
GRAP 110 Living and Non-living Resources
IGRAP 1 Applying the probability test on initial recognition revenue (amendments)
IGRAP 20 Accounting for adjustments to revenue
Guideline Accounting for landfill sites
Guideline The application of materiality to financial statements

Impact on the municipality's financial statements once implemented:

None of these standards and interpretations are anticipated to have a material impact on the municipality's financial statements.

Management has considered all of the foregoing GRAP standards issued but not yet effective and effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Expenditure

Expenditure is recognised on an accrual basis .

1.4 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Financial instruments held at amortised cost and at cost

The municipality assesses its financial instruments for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

Financial assets:

As described in the accounting policy disclosure relating to financial instruments, the municipality considers the detailed impairment criteria as set out in GRAP 104: Financial Instruments. Management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

Useful lives and impairment of Property, Plant and Equipment (PPE) and Intangible assets with indefinite useful lives:

As described in the accounting policy disclosure relating to PPE and intangible assets with indefinite useful lives, the municipality depreciates/amortises the aforementioned assets over their estimated useful lives, taking into account the residual values of the assets at the end of their useful lives. The useful lives and residual values of the assets are based on industry knowledge.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in the note.

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.5 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.6 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings		
• Parkhomes	Straight line	5-10 years
• Residential	Straight line	10- 33 years
• Ablutions	Straight line	25-50 years
• Car ports	Straight line	15-30 years
• Community halls	Straight line	25-50 years
• Testing centre	Straight line	25-50 years
• Libraries	Straight line	25-50 years
• Sports fields	Straight line	25-50 years
• Creches	Straight line	24-50 years
• Store rooms	Straight line	25-30 years
Electricity		
• Cables	Straight line	25-45 years
• Panels	Straight line	3-14 years
• Fencing	Straight line	10-25 years
• High mast lights	Straight line	15-25 years
• Overhead lines	Straight line	20-30 years
• Meters	Straight line	20-30 years
• Substation equipment indoor	Straight line	30-40 years
• Substation equipment outdoor	Straight line	20-30 years
• Switchgears	Straight line	20-30 years
• Substations	Straight line	20-20 years
• Transformers	Straight line	25-50 years
Roads		
• Traffic calming	Straight line	10-30 years
• Roads barriers	Straight line	10- 30 years
• Kerb & channels	Straight line	40-50 years
• Roads asphalt basis	Straight line	30-50 years
• Roads asphalt surface	Straight line	10-22 years
• Roads gravel surface	Straight line	3-25 years
• Pedestrian footpaths	Straight line	15-30 years
• Roads streetlighting	Straight line	25-40 years
• Traffic lights	Straight line	15-20 years
• Traffic signs	Straight line	5- 15 years
• Culverts	Straight line	25- 40 years
• Drains concrete	Straight line	25-50 years
• Roads	Straight line	10-20 years
Furniture and fittings		
• Airconditioners	Straight line	3-30 years
• Office equipment	Straight line	5-30 years
• Other furnitures	Straight line	5-30 years
• Paintings, sculptures and ornaments	Straight line	5-10 years
Transport assets		
• Motor vehicles	Straight line	4-30 years
• Trailers and accessories	Straight line	5-30 years
• Trucks	Straight line	5-30 years
Other machinery and equipment		
• Audio visual equipment	Straight line	5-30 years
• Domestic equipment	Straight line	3-30 years
• Electric wire or power distribution	Straight line	3-12 years
• Farm or agricultural equipment	Straight line	5-33 years
• Gardening equipment	Straight line	2-33 years
• Irrigation equipment	Straight line	10-15 years
• Kitchen appliances	Straight line	5-25 years
• Medical and allied equipment	Straight line	5-25 years
• Photographic equipment	Straight line	5-10 years

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.6 Property, plant and equipment (continued)

• Radio equipment	Straight line	5-25 years
• Roads equipment	Straight line	10-30 years
• Security equipment	Straight line	3-30 years
• Survey equipment	Straight line	5-30 years
• Telecommunication equipment	Straight line	3-12 years
• Tens, flags and accessories	Straight line	5-11 years
• Workshop equipment	Straight line	5-30 years
Computer equipment		
• Computer hardware	Straight line	4-25 years
• Computer network	Straight line	5-10 years
Solid waste disposal	Straight line	
• Bins containers	Straight line	10- 15 years

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.7 Site restoration and dismantling cost

Where the municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.8 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.8 Intangible assets (continued)

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Licenses	Straight line	2-30 years
Computer software	Straight line	2-30 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of intangible assets is included in surplus or deficit when the asset is derecognised.

1.9 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.9 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised.

1.10 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
 - receive cash or another financial asset from another municipality; or
 - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Receivables from customers
Bank and cash
Short term investment deposits

Category

Financial asset measured at amortised cost
Financial asset measured at cost
Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Long term loan
Creditors

Category

Financial liability measured at amortised cost
Financial liability measured at amortised cost

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.10 Financial instruments (continued)

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

Accounting Policies

1.10 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.10 Financial instruments (continued)

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.11 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.11 Statutory receivables (continued)

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, a municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The entity derecognises a statutory receivable, or a part thereof, when:

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.11 Statutory receivables (continued)

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
 - derecognise the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.12 Tax

Taxation

The uPhongolo Local municipality is exempt from tax in terms of section 10(1)(a) of the Income Tax Act.

1.13 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset excluding finance costs.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Designation

Assets are designated as cash-generating or non-cash-generating based on the municipality's objective of using the assets. Assets can either be used with the objective of generating a commercial return or delivering services.

The assessment of a municipality's objective of using the asset is performed at initial recognition, based on management's expected use of the asset over its useful life. Subsequent to initial recognition and designation, a municipality shall redesignate an asset, if there has been a change in a municipality's expected use of the asset that is expected to result in positive cash flows that are significantly higher than the cost of the asset.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.15 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Accounting Policies

1.15 Employee benefits (continued)

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.15 Employee benefits (continued)

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Retirement

Funds:

municipality contributes towards retirement benefits of its employees to the following funds:

Joint Municipal Pension Fund;
Government Employees Pension Fund;
Municipal Gratuity Fund;
South African Local Authorities Pension Fund

The
Natal

Post employment medical care benefits:

The municipality provides post-retirement medical care benefits by subsidising the medical aid contributions to retired employees and their legitimate spouses. The entitlement of post-medical benefits is based on employees remaining in service up to the retirement age and the completion of a minimum service period. The expected cost of these benefits is accrued over the period of employment. Post employment medical care benefits are accounted for in accordance to GRAP 25.

1.16 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.16 Provisions and contingencies (continued)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

Operational commitment represent both goods and services where an order or an appointment letter has been approved and issued to the supplier at the reporting period

1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Accounting Policies

1.18 Revenue from exchange transactions (continued)

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

The municipality recognises property rates in terms of the Municipal Property Rates Act and the municipal rates policy.

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met. The taxable event for property tax is the passing of the date on which the tax is levied.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Government grants

Grants and donations received, or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is not a corresponding liability in respect of the related conditions. Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, the liability is transferred to revenue as and when the conditions attached to the grant are met.

Unconditional grants are recognised as revenue in full when the asset is recognised, at an amount equal to the fair value of the asset received.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.21 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.22 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.24 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.25 Budget information

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 1/7/2019 to 6/30/2020.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.26 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities under the control of Council are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties that are not at arm's length or not in the ordinary course of business are disclosed.

1.27 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.27 Events after reporting date (continued)

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.28 Value Added Tax (VAT)

The municipality accounts for VAT on the accrual basis. The municipality is liable to account for VAT at the standard rate (15%) in terms of section 7(1)(a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
-----------------	------	------

2. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	70,590,000	-	70,590,000	67,831,000	-	67,831,000

Reconciliation of investment property - 2020

	Opening balance	Fair value adjustments	Total
Investment property	67,831,000	2,759,000	70,590,000

Reconciliation of investment property - 2019

	Opening balance	Transfers	Fair value adjustments	Total
Investment property	90,005,000	(28,845,000)	6,671,000	67,831,000

Pledged as security

No investment properties were pledged as security:

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluations was Tuesday, June 30, 2020. Revaluations were performed by an independent valuer, Mr R M Fitchet [FIVSA MRICS] and WF Hamilton, of BPG Mass Appraisals (pty) Ltd. BPG Mass Appraisals are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

These assumptions are based on current market conditions.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	64,602,265	-	64,602,265	64,602,265	-	64,602,265
Buildings	122,900,829	(27,218,190)	95,682,639	106,253,623	(24,576,391)	81,677,232
Infrastructure	201,947,466	(68,267,092)	133,680,374	259,785,852	(116,788,219)	142,997,633
Solid waste	7,054,523	-	7,054,523	5,505,095	-	5,505,095
Other PPE	40,778,308	(20,629,244)	20,149,064	31,526,148	(12,335,721)	19,190,427
Total	437,283,391	(116,114,526)	321,168,865	467,672,983	(153,700,331)	313,972,652

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	WIP transfer	Transfers received	Depreciation	Impairment loss	Total
Land	64,602,265	-	-	-	-	-	-	64,602,265
Buildings	81,677,232	17,040,253	-	-	-	(2,950,157)	(84,689)	95,682,639
Infrastructure	142,997,633	7,209,464	-	(26,767,801)	26,767,801	(16,526,723)	-	133,680,374
Solid waste	5,505,095	1,549,428	-	-	-	-	-	7,054,523
Other PPE	19,190,427	3,531,636	644,542	-	-	(3,282,242)	64,701	20,149,064
	313,972,652	29,330,781	644,542	(26,767,801)	26,767,801	(22,759,122)	(19,988)	321,168,865

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	WIP transfer	Transfers received	Depreciation	Impairment loss	Total
Land	64,602,265	-	-	-	-	-	-	64,602,265
Buildings	73,572,202	10,430,065	-	-	-	(2,275,923)	(49,112)	81,677,232
Infrastructure	139,138,128	12,714,418	-	(4,763,139)	4,763,139	(8,854,913)	-	142,997,633
Solid waste	5,505,095	-	-	-	-	-	-	5,505,095
Other PPE	14,319,221	8,158,693	(26,585)	-	-	(2,740,913)	(519,989)	19,190,427
	297,136,911	31,303,176	(26,585)	(4,763,139)	4,763,139	(13,871,749)	(569,101)	313,972,652

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Buildings	Total
Opening balance	8,162,906	27,796,694	35,959,600
Additions/capital expenditure	7,209,464	17,040,253	24,249,717
Transferred to completed items	-	(27,076,159)	(27,076,159)
	15,372,370	17,760,788	33,133,158

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Buildings	Total
Opening balance	74,178,965	14,216,258	88,395,223
Additions/capital expenditure	901,284	11,813,134	12,714,418
Transferred to completed items	(66,917,343)	1,767,302	(65,150,041)
	8,162,906	27,796,694	35,959,600

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
3. Property, plant and equipment (continued)		
Expenditure incurred to repair and maintain property, plant and equipment		
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Buildings	1,035,110	537,832
Other	851,851	1,474,680
Infrastructure	7,632,583	2,186,555
	9,519,544	4,199,067

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand

4. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	3,061,310	(828,237)	2,233,073	1,041,704	(588,627)	453,077

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Impairment loss	Total
Computer software	453,077	2,019,605	(227,414)	(12,195)	2,233,073

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Impairment loss	Total
Computer software	598,782	(103,444)	(42,261)	453,077

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand

5. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Other Heritage Assets	46,949	-	46,949	46,949	-	46,949
Works of art	23,996	-	23,996	23,996	-	23,996
Total	70,945	-	70,945	70,945	-	70,945

Reconciliation of heritage assets 2020

	Opening balance	Total
Other Heritage Assets	46,949	46,949
Works of art	23,996	23,996
	70,945	70,945

Reconciliation of heritage assets 2019

	Opening balance	Total
Other Heritage Assets	46,949	46,949
Works of art	23,996	23,996
	70,945	70,945

Pledged as security

No heritage assets pledged as security

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
-----------------	------	------

6. Employee benefit obligation

Defined benefit plan

Medical Benefits:

An actuarial valuation has been performed by One Pangaea Expertise and Solutions to ascertain the municipality's liability in respect of the benefits to eligible employees.

The actuarial valuation is performed every two years.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Opening balance	(2,120,384)	(3,187,920)
Interest costs	(215,258)	(236,454)
Benefits paid	209,725	229,538
Actuarial gain/(loss)	153,691	1,074,452
	(1,972,226)	(2,120,384)

Net expense recognised in the statement of financial performance

Interest cost	(215,258)	(236,454)
Actuarial gains (losses)	153,691	1,074,452
	(61,567)	837,998

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.40 %	10.68 %
Salary inflation	6.23 %	7.73 %
1% increase in medical inflation	7.92 %	8.47 %
1% decrease in medical inflation	7.04 %	7.47 %
1% increase in discount rate	6.34 %	6.84 %
1% decrease in discount rate	7.22 %	7.84 %
Mortality less 2 years	8.60 %	8.84 %

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
-----------------	------	------

6. Employee benefit obligation (continued)

Other assumptions

The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. As a result of the restrictions, some of the entities defined benefit plans have not been treated as defined benefit plans as defined by GRAP 25, but are rather accounted for as defined contribution plans. This is in line with the GRAP 25 exemption which states that where information required for proper defined benefit plan accounting is not available in respect of multi employer and state plans, these should be accounted for as defined contributions plan.

Pension benefits

The Municipality's personnel are members of one of the pension funds listed below:

- Kwa-Zulu Natal Joint Municipal Pension Fund,
- Municipal Gratuity Fund,
- Municipal Employees Pension Fund,
- Government Employees Pension Fund

As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to individual municipalities cannot be determined. Furthermore, disclosure of further details such as actuarial assumptions cannot be attributed to any specific municipality and is of no relevance to users of the municipality's financial statements. As the required disclosure information cannot be obtained, the funds are all treated as defined contribution plans. An independent valuer carries out a statutory valuation of the NJMPF on a triennial basis and an interim valuation on an annual basis. The 2019 actuarial valuations have not been released.

Superannuation Fund: The interim valuation carried out on the Superannuation Fund as at March 2016 reflected the following:

- The memorandum account in respect of the pensioners was fully funded
- The ability in respect of active members was 100% funded

Retirement and Provident Fund: The latest statutory valuation on the Retirement/Provident Fund (defined contribution) as at 31 March 2020 revealed the following: -The memorandum account in respect of the pensioners was fully funded

- The ability in respect of active members was 100% funded

Principal actuarial assumptions:

Sensitivities

1% increase in discount rate

- Defined benefit obligation	1 847 157	1 975 422
- Percentage	6.34%	6.84%

1% decrease in discount rate

- Defined benefit obligation	2 114 728	2 286 686
- Percentage	7.22%	7.84%

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019			
6. Employee benefit obligation (continued)					
1% decrease in salary inflation					
- Defined benefit obligation	1 833 344	1 961 759			
- Percentage	7.04%	7.48%			
1% increase in salary inflation					
- Defined benefit obligation	2 128 407	2 299 879			
- Percentage	7.92%	8.47%			
	2020	2019	2018	2017	2016
	R	R	R	R	R
Present value of funded obligations	1,972,225	2,120,383	3,187,919	3,115,366	3,025,320
Total	1,972,225	2,120,383	3,187,919	3,115,366	3,025,320
7. Prepayments					
Prepayments				209,968	7,113
8. Statutory Receivables from non-exchange transactions					
Fines				7,724,853	5,760,776
Property rates				91,783,728	79,250,231
Impairment				(10,436,341)	(9,882,995)
				89,072,240	75,128,012

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
-----------------	------	------

8. Statutory Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions age analysis

Property rates: Ageing

Current (0-30 days)	3,098,199	3,189,722
31- 60 days	2,019,263	2,010,777
61-90 days	1,520,633	1,494,499
91-120 days	1,421,844	1,405,358
121-365 days	8,361,964	9,044,657
+365 days	75,361,825	62,136,628
	91,783,728	79,281,641

Traffic fines: Ageing

Current (0-30 days)	140,400	207,800
31-60 days	270,900	299,950
31-90 days	234,600	232,000
91-120 days	69,550	161,050
121-365 days	1,292,200	1,080,600
+365 days	5,717,703	3,779,376
	7,725,353	5,760,776

Reconciliation of provision for impairment of statutory receivables from non-exchange transactions

Opening balance	9,882,994	4,621,311
Contribution for the current year	553,347	5,261,683
	10,436,341	9,882,994

9. VAT receivable

VAT refundable	929,885	1,621,626
----------------	---------	-----------

The municipality accounts for VAT on the accrual basis. The municipality is liable to account for VAT at the standard rate of 15% in terms of section 7 (1)(a) of the VAT Act in respect of the supply of goods or services, except where the suppliers are specifically zero rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

10. Receivables from exchange transactions

Gross balances

Electricity	10,948,326	8,198,631
Refuse	108,171,579	93,423,487
Other	2,568,498	4,426,577
	121,688,403	106,048,695

Less: Allowance for impairment

Electricity	(1,984,082)	(2,233,125)
Refuse	(105,606,153)	(91,182,098)
Other	(1,788,727)	(2,221,108)
	(109,378,962)	(95,636,331)

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
10. Receivables from exchange transactions (continued)		
Net balance		
Electricity	8,964,244	5,965,505
Refuse	2,565,426	2,241,389
Other	779,771	2,205,469
	12,309,441	10,412,363
Electricity		
Current (0 -30 days)	5,967,704	4,840,871
31 - 60 days	1,138,896	915,463
61 - 90 days	614,925	189,195
91 - 120 days	312,422	112,363
121 - 365 days	859,064	448,571
> 365 days	2,055,315	1,692,168
	10,948,326	8,198,631
Refuse		
Current (0 -30 days)	1,064,521	1,076,393
31 - 60 days	908,903	920,949
61 - 90 days	795,850	779,328
91 - 120 days	774,661	742,498
121 - 365 days	6,757,501	6,249,152
> 365 days	97,870,143	83,655,167
	108,171,579	93,423,487
Other		
Current (0 -30 days)	53,582	54,437
31 - 60 days	34,695	27,450
61 - 90 days	39,971	25,963
91 - 120 days	29,877	25,509
121 - 365 days	207,315	320,145
> 365 days	2,385,282	2,382,391
	2,750,722	2,835,895
Reconciliation of allowance for impairment		
Balance at beginning of the year	(95,636,332)	(81,783,522)
Contributions to allowance	(13,742,630)	(13,852,810)
	(109,378,962)	(95,636,332)

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	4,811	2,327
Bank balances	29,065,683	7,097,006
Short-term deposits	212,416	67,253
	29,282,910	7,166,586

The municipality holds a facility account relating to the use of fleet services with a value of R500 000 and a vehicle asset finance (LCF) of R11 200 000 .

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
-----------------	------	------

11. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2020	June 30, 2019	June 30, 2018
FNB - 62027530858 (Primary bank account)	29,065,683	7,097,007	-	29,065,683	7,097,007	-
FNB - 62375342377	94	94	-	94	94	-
FNB - 62377992104	182	182	-	182	182	-
FNB - 62389585286	895	895	-	895	895	-
FNB - 62389586507	7,879	7,689	-	7,879	7,689	-
FNB - 62404561377	87	87	-	87	87	-
FNB - 62404287345	56,442	1,311	-	56,442	1,311	-
FNB - 62658357001	5,147	5,025	-	5,147	5,025	-
FNB - 62305239718	88,739	158	-	88,739	158	-
FNB - 74275780911	49,701	47,417	-	49,701	47,417	-
FNB - 62596797559	4	4	-	4	4	-
FNB - 62253771896	3,025	3,022	-	3,024	3,022	-
FNB - 62230436405	22	22	-	11	22	-
STD - 068686234003	-	1,347	-	-	1,347	-
Cash on hand	4,811	2,327	-	4,811	2,327	-
Total	29,282,711	7,166,587	-	29,282,699	7,166,587	-

12. Finance lease obligation

Non-current liabilities	1,334,237	3,778,321
Current liabilities	3,138,192	2,783,898
	4,472,429	6,562,219
less: future finance charges	(966,787)	(1,148,827)
	3,505,642	5,413,392

Present value of minimum lease payments due

- within one year	2,418,870	2,049,416
- in second to fifth year inclusive	1,086,772	3,363,976
	3,505,642	5,413,392

Municipality leased twelve (12) motor vehicles from Minatlo from 01 January 2019 to 31 December 2021. Thirty six (36) monthly lease instalments of R189 000,78 in total is payable monthly for the entire lease period. The interest is charged at (Toyota 12% and Isuzu 18%). Municipality have the option to either acquire the motor vehicles at fair value or not at the end of the leasing term.

Municipality leased fourteen (14) photocopying machines from Konica Minolta from 01 June 2018 to 30 June 2021. Thirty six (36) monthly lease instalments of R33 931,42 in total is payable monthly for the entire lease period. The interest is charged at 2%. Ownership of the assets will not pass to the municipality at the end of lease.

Municipality leased one (1) franking machine from Nashua from 01 August 2015 to 31 July 2019. The fourthy eight (48) monthly lease instalments of R2 300 or more (subject to escalations) is payable monthly for the entire lease period. The interest is charged at 9.5%. Ownership of the assets will not pass to the municipality at the end of lease.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
13. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure Grant	9,423,318	5,953,502
Integrated National Electrification Programme	95	-
Pound Grant	-	1,000,000
Sub Rank Facility Grant	3,417	3,417
Small Town Improvement Grant	7,458	7,458
Single land use scheme	3,500	3,500
Title Deeds Ncotshane	89,511	89,511
Koppie Allen	1,335,594	-
Mkuze Falls	56,377	-
	10,919,270	7,057,388

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
-----------------	------	------

14. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Total
Non current: Environmental rehabilitation	7,002,686	43,368	7,046,054
Current: Bonuses	85,000	67,226	152,226
	7,087,686	110,594	7,198,280

Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	6,569,124	433,562	-	7,002,686
Current Bonuses	118,717	85,000	(118,717)	85,000
	6,687,841	518,562	(118,717)	7,087,686
Non-current liabilities			7,046,054	7,002,686
Current liabilities			152,226	85,000
			7,198,280	7,087,686

Bonus provision: The provision is to provide for performance bonuses of the section 54 & 56 employees. Performance bonuses are paid one year in arrears as the assessment of eligible employees takes place after year end.

Rehabilitation of landfill site

Landfill site: The rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal at the time of closure. The value of the provision is based on the present value of the expected future costs to rehabilitate the site.

Rehabilitation costs were calculated based on the following assumptions:

Assumptions

Assumptions	Percentage 2020	Percentage 2019	
Annual inflation	4.140 %	6.600 %	-
Discount rate	10.920 %	6.600 %	-

The landfill site is 5 hectares and the area expected to be rehabilitated is 3 hectares. The estimated closure date is 2035/36. The municipality has an obligation to rehabilitate the landfill site at the end of the end of the usage period of 16 years. The value of the provision is created for the rehabilitation of the current operational site at the future estimated time of closure. The value of the provision is based on the based on the expected future cost to rehabilitate the discounted back to the reporting date at the cost of capital, which is 6.6%. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The municipality estimates the useful life and makes assumptions as to the useful life of the assets, which influence the provision for future costs.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
-----------------	------	------

15. Long- service awards

Employees who achieve 20 years service have a choice of 20 days paid leave(once off) or encashment of leave.
Employees who achieve 30 years service have a choice of 30 days paid leave(once off) or encashment of leave.
Employees who achieve 35 years service have a choice of 50 days paid leave(once off) or encashment of leave.

The abovementioned leave is granted in addition to the annual leave entitlement and maximum accumulation granted in terms of the National Conditions of Service. The leave may be taken, converted to cash fully or partially or accumulated. The leave is only applicable to those employees who have achieved the stated years of service after the effective date of these conditions.

The provision is an estimate of the long service award based on the monthly salaries rate as at 30 June 2020. It has been assumed that the staff turnover rate will be insignificant based on historical data. The provision has not been discounted based on the fact that the interest cost is insignificant and the fair presentation of the provision is not materially affected.

The valuation of the liability was performed in line with GRAP 25: Employee benefits by One Pangaea Expertise and Solutions as at 30 June 2020 and included projections for 2021.

The actuarial valuation is performed every two years

Changes in the present value of the long-service obligation are as follows:

Opening balance	(1,294,001)	(1,127,068)
Service cost	(122,314)	(131,568)
Interest cost	(133,459)	(115,509)
Actuarial gains and (losses)	(312,621)	(44,910)
Benefits paid	479,517	125,054
	(1,382,878)	(1,294,001)

Net expense recognised in the statement of financial performance

Service cost	(122,314)	(131,568)
Interest cost	(133,459)	(115,509)
Actuarial gain/(loss)	(312,621)	(44,910)
	(568,394)	(291,987)

Principal actuarial assumptions used

Discount rate	10	10
---------------	----	----

Principal actuarial assumptions used:

	Percentage- 2020	Percentage- 2019
Discount rate	12.34 %	10.35 %
Salary inflation rate	8.24 %	7.73 %
1% decrease in salary inflation	10.02 %	11.27 %
1% increase in salary inflation	11.46 %	13.04 %
	- %	- %

16. Long term loans- long term portion

Non - Current liabilities	2,710,586	2,655,425
Current liabilities	4,002,568	4,000,070
	6,713,154	6,655,495

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
-----------------	------	------

16. Long term loans- long term portion (continued)

Standard Bank:

The municipality has a loan with Standard Bank for the purchase of property, plant and equipment. The loan bears interest at an average effective borrowing rate of 7.38% per annum. The loan is repayable on a semi- annual basis with final payment due on 30 June 2023.

Fleet Horizon Solutions:

The municipality has a loan with Fleet Horizon for the purchase of property, plant and equipment. The loan bears interest at an average effective borrowing rate of 15.5% per annum. The loan is repayable on a monthly basis with final payment due on 30 April 2021.

Wesbank:

The municipality has a loans with WesBank for the purchase of property, plant and equipment. The loans bears interest at an average effective borrowing rate of 9.59% per annum. Loans are repayable on a monthly basis with final payment due on 01 October 2021 and 01 September 2021.

Property plant and equipment with a combined carrying value of R 6 843 677,14 and monthly repayments (R320 653.4) have been pledged as security.

17. Payables from exchange transactions

Trade payables	41,479,216	39,765,362
Retentions	6,097,997	4,978,088
Staff leave accrual	6,539,884	6,053,393
Accrued bonus	2,789,659	2,299,678
Payroll deductions	(5,227)	378,288
Deposits- Other	685,996	677,033
Debtors with credit balance	1,036,274	546,577
	58,623,799	54,698,419

18. Consumer deposits

Electricity	1,995,512	2,085,697
-------------	-----------	-----------

19. Service charges

Sale of electricity	43,426,337	39,325,985
Refuse removal	11,090,944	10,622,446
	54,517,281	49,948,431

20. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	611,191	596,657
Facilities and equipment	611,191	596,657

21. Fines, Penalties and Forfeits

Traffic Fines	2,080,250	1,981,400
---------------	-----------	-----------

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
22. Licences and permits (exchange)		
Licences and permits	1,077,757	1,476,333
23. Impairment loss/reversal		
Impairments		
Property, plant and equipment	19,988	569,102
Intangible assets	12,195	42,261
	32,183	611,363
24. Interest received- trading		
Interest receivables	12,118,566	10,905,336
25. Other income		
NPA fees	616,208	903,644
Electricity connection and reconnections fees	105,717	12,901
Building plans	23,877	18,542
Burial fees	95,495	98,083
Sign boards	72,490	71,770
Tender document fees	215,218	360,614
Certificate clearance and validation	11,814	27,528
Dumping fees	3,367	4,621
Other	306,957	847,311
	1,451,143	2,345,014
26. Interest received- investment		
Interest revenue		
Current account	436,657	776,246
External investments	1,408,338	744,124
	1,844,995	1,520,370
	-	-
	1,844,995	1,520,370

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
-----------------	------	------

27. Property rates

Rates received

Residential	8,978,998	8,535,169
Commercial	10,079,753	9,581,514
State	9,082,380	8,633,441
Other	11,492,383	10,770,707
	39,633,514	37,520,831

Valuations

Residential	753,473,000	692,089,000
Commercial	515,650,000	484,250,000
State	443,642,000	799,291,000
Municipal	43,170,000	85,531,000
Small holdings and farms	1,731,590,600	1,425,304,600
	3,487,525,600	3,486,465,600

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014. Rebates of R60 000 are granted to residential and 30% to public service infrastructure. Rates are levied on a monthly basis on property owners.

Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2020.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
28. Government grants and subsidies		
Operating grants		
Equitable share	136,387,000	119,730,000
Expanded Public Works Programme Grant	2,513,000	2,534,000
Financial Management Grant	2,435,000	1,970,000
Provincialisation of Libraries Grant	1,760,000	1,676,000
Community Libraries Services Grant	422,000	394,000
Municipal Infrastructure Grant	-	1,389,700
Single Land Use Scheme	-	496,500
Disaster Relief Grant	879,000	-
Koppie Allen	164,406	-
Mkuze Falls	2,443,623	-
	147,004,029	128,190,200
Capital grants		
Municipal Infrastructure Grant	24,832,183	20,450,798
	147,004,029	128,190,200
	24,832,183	20,450,798
	171,836,212	148,640,998
Equitable Share		
Current-year receipts	136,387,000	119,730,000
Conditions met - transferred to revenue	(136,387,000)	(119,730,000)
	-	-
Municipal Infrastructure Grant		
Balance unspent at beginning of year	5,953,502	-
Current-year receipts	28,302,000	27,794,000
Conditions met - transferred to revenue	(24,832,184)	(21,840,498)
	9,423,318	5,953,502
Conditions have been met (see note 13).		
This grant is used to construct basic municipal infrastructure to provide basic services for the benefit of the community within the municipal boundaries. National Treasury approved a roll-over amount of R5.9 million for the 2018-19 financial year. The municipality to undertake the roll-over application process for the funding of R9. 4 million that was unspent for the 2019-20 financial year which includes an amount of R5.8 million that was approved by National Treasury in support of the alleviation of the declared disaster on COVID-19 pandemic.		
Finance Management Grant		
Current-year receipts	2,435,000	1,970,000
Conditions met - transferred to revenue	(2,435,000)	(1,970,000)
	-	-
Conditions have been met (see note 13).		
The purpose of this grant is to promote and support reforms in financial management by building capacity to implement the municipal Finance Management Act. The conditions of the grant were met and no funds have been withheld.		
Housing Grant		

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
28. Government grants and subsidies (continued)		
Current-year receipts	13,058,624	6,158,993
Payment made to suppliers	(13,058,624)	(6,158,993)
	-	-

Conditions have been met (see note 13).

This grant relates to the implementation and provision of housing projects to the community in need of them. The funding provided to the municipality has been fully spent as at the end of the financial year and no funds have been withdrawn. This grant is accounted for in terms of GRAP 109 therefore the expenditure and revenue is not recorded in the books of the municipality.

Integrated National Electrification Programme Grant

Current-year receipts	8,500,000	8,500,000
Payment made to suppliers	(6,909,223)	(10,090,682)
Payment from own revenue	(1,590,682)	1,590,682
	95	-

Conditions have been met (see note 13).

The purpose of this grant is to address the electrification backlog of permanently occupied dwellings, the installation of bulk infrastructure and rehabilitation of electricity infrastructure in order to improve quality of supply. The conditions of the grant were met and no funds have been withheld. This grant is accounted for in terms of GRAP 109 therefore expenditure and revenue is not recorded in the books of the municipality.

Pound Grant

Balance unspent at beginning of year	1,000,000	1,000,000
Current-year receipts	-	1
Conditions met - transferred to revenue	-	(1)
Unspent surrendered to COGTA	(1,000,000)	-
	-	1,000,000

Conditions have been met - remain liabilities (see note 13).

This grant was provided in order to construct a pound in the pongola area. COGTA issued a letter requesting the municipality to transfer an amount of R1 000 000 to Imbube Cultural Village grant, in the 2018/19 COGTA issued another letter requesting the R1 000 000 back. The municipality have subsequently paid an amount R1 000 000 to COGTA in the 2019/20 financial year.

Sub- Rank Facility Grant

Balance unspent at beginning of year	3,417	3,417
Current-year receipts	-	(1)
Conditions met - transferred to revenue	-	1
	3,417	3,417

Conditions still to be met - remain liabilities (see note 13).

The purpose of the grant is to construct the sub rank facility in uPhongolo town. The conditions of this grant were not met as at the 30th of June 2020

Single Land Use Scheme

Balance unspent at beginning of year	3,500	-
Current-year receipts	-	500,000

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
28. Government grants and subsidies (continued)		
Conditions met - transferred to revenue	-	(496,500)
	3,500	3,500

Conditions have been met (see note 13).

This grant relate to implementation of Spluma

Small Town Improvement grant

Balance unspent at beginning of year	7,458	7,458
Current-year receipts	-	1
Conditions met - transferred to revenue	-	(1)
	7,458	7,458

Conditions have been met - remain liabilities (see note 13).

The purpose of this grant was to install street lights and high masts in Pongola Town. Other than the unspent amount the conditions of the grant were met and no funds were withheld .

Community Libraries Grant

Current-year receipts	422,000	394,000
Conditions met - transferred to revenue	(422,000)	(394,000)
	-	-

Conditions have been met (see note 13).

This grant is used to pay the salary of the library Cyber Cadet and subsidise operational costs associated with libraries. The conditions of the grant were met and no funds were withheld.

Provincialisation of Libraries Grant

Current-year receipts	1,760,000	1,676,000
Conditions met - transferred to revenue	(1,760,000)	(1,676,000)
	-	-

Conditions have been met (see note 13).

The purpose of the grant is to subsidise operational costs associated with libraries. The conditions of the grants were met and no funds were withheld.

Expanded Public Works Programme Grant

Current-year receipts	2,513,000	2,534,000
Conditions met - transferred to revenue	(2,513,000)	(2,534,000)
	-	-

Conditions have been met (see note 13).

The Expanded Public Works Programme is a special performance based incentive provided to municipalities that contribute to the employment creation efforts of the expanded public works programme through the employment of previously unemployed people. The conditions of the grant were met and no funds have been withheld

Koppie Guest House Grant

Current-year receipts	1,500,000	-
-----------------------	-----------	---

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
28. Government grants and subsidies (continued)		
Conditions met - transferred to revenue	(164,406)	-
	1,335,594	-

Conditions have been met - remain liabilities (see note 13).

The purpose of this grant was to upgrade the Koppie Allen Guest House which is intended to be used for booking by tourist visiting uPhongolo territory. Other than the unspent amount, the conditions of the grant were met.

Mkuze Falls Grant

Current-year receipts	2,500,000	-
Conditions met - transferred to revenue	(2,443,623)	-
	56,377	-

Conditions have been met - remain liabilities (see note 13).

The purpose of this grant was to furnish and upgrade the infrastructure of the Mkuze Falls Game Reserve for the purpose of attracting the tourist to visit this Game Reserve. Other than the unspent amount, the conditions of the grant were met.

Municipal Disaster Relief Grant Fund

Current-year receipts	879,000	-
Conditions met - transferred to revenue	(879,000)	-
	-	-

Conditions have been met - remain liabilities (see note 13).

The purpose of this grant was assist the municipality in procuring the personal protective equipment, and other goods to assist in fighting against the spread of the Covid-19 pandemic. The conditions of the grant were met..

Ncotshane Title Deeds

Balance unspent at beginning of year	89,511	-
Current-year receipts	-	89,511
Conditions met - transferred to revenue	-	1
Other	-	(1)
	89,511	89,511

Conditions still to be met - remain liabilities (see note 13).

This grant is going to be used for transferring title deeds to the community of uPhongolo .

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
29. Employee related costs		
Salaries and wages	60,501,773	53,859,050
Performance and other bonus	4,714,818	4,378,386
Medical aid - company contributions	3,111,354	2,652,903
UIF- company contributions	439,988	425,849
WCA	433,658	414,195
SDL	644,670	698,568
Standby allowance	1,633,551	1,233,489
Leave payout	1,435,760	1,372,070
Remote allowance	177,605	142,310
Group Life Insurance- company contributions	56,209	51,065
Pension and provident fund	7,776,568	6,580,831
Car allowances	7,136,826	6,807,650
Overtime payments	2,950,583	3,698,020
Long-service awards	122,314	131,568
Acting allowances	140,452	406,452
Cellphone allowance	346,212	242,001
Housing benefits and allowances	285,900	358,771
Industrial Council	28,827	26,889
	91,937,068	83,480,067
Remuneration of Municipal Manager		
Annual Remuneration	1,030,759	988,264
Allowances	355,630	345,531
Performance Bonuses	103,121	-
Contributions to UIF, Medical and Pension Funds	11,877	12,465
	1,501,387	1,346,260
Remuneration of Chief Financial Officer		
Annual Remuneration	870,435	811,416
Allowances	375,617	373,257
Performance Bonuses	99,831	-
Contributions to UIF, Medical and Pension Funds	11,669	11,746
	1,357,552	1,196,419
Remuneration of Technical Services Director		
Annual Remuneration	846,307	811,416
Allowances	374,652	373,257
Performance Bonuses	66,539	-
Contributions to UIF, Medical and Pension Funds	11,576	11,674
	1,299,074	1,196,347
Remuneration of Community Services Director		
Annual Remuneration	846,307	811,416
Allowances	344,052	332,457
Performance Bonuses	64,213	-
Contributions to UIF, Medical and Pension Funds	10,206	10,687
	1,264,778	1,154,560
Remuneration of Corporate Services Director		

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
29. Employee related costs (continued)		
Annual Remuneration	846,307	135,236
Allowances	374,652	62,209
Contributions to UIF, Medical and Pension Funds	9,079	1,880
	1,230,038	199,325

30. Remuneration of councillors

Mayor	528,820	511,249
Deputy Mayor	432,000	417,948
Executive Committee Members	1,098,666	1,183,796
Speaker	432,000	417,946
Councillors	7,420,365	7,185,800
	9,911,851	9,716,739

In-kind benefits

The Mayor, Deputy Mayor, Speaker and Executive Committee Members are not full-time. The Mayor, Deputy Mayor and Speaker are provided with an office and secretarial at the cost of the Council.

The Mayor, Deputy Mayor and Speaker each have three full-time contracted bodyguards.

The Mayor, Deputy Mayor and Speaker each have the use of separate council owned vehicles for official duties.

Other two councillors have one full-time contracted bodyguards.

The municipality has 29 part time Councillors and 1 EXCO Councillor resigned on 30 June 2020. One of the part time councillors is the chairperson of a section 79 committee.

31. Depreciation and amortisation

Property, plant and equipment	22,759,122	13,871,480
Intangible assets	227,414	103,713
	22,986,536	13,975,193

32. Finance costs

Borrowings	688,160	1,427,484
Suppliers	960,913	267,227
Landfill site interest	43,368	433,562
Actuarial interest cost	348,717	351,963
	2,041,158	2,480,236

33. Debt impairment

Debt impairment- statutory receivables	553,346	5,261,683
Debt impairment- receivables from exchange transactions	13,742,630	13,852,810
	14,295,976	19,114,493

34. Bulk purchases

Electricity - Eskom	31,920,342	27,756,027
---------------------	------------	------------

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand			2020	2019
34. Bulk purchases (continued)				
Electricity losses				
Units purchased	-	-	28,691,645	28,936,801
Units sold	-	-	(25,816,153)	(25,628,334)
Total loss	-	-	2,875,492	3,308,467
Electricity losses in Rands comprises of:				
Electricity losses	-	-	3,199,073	3,204,629
Percentage Loss:				
Electricity losses	- %	- %	10 %	11 %

The municipality purchased 28 691 645 units (2019: 28 936 802 units) from Eskom and sold 25 816 153 units (2019: 25 628 334 units) to consumers. This represents a loss of 2 875 492 units (2019: 3 308 467 units) which equates to R3 199 073 (2019: R3 204 629) and translates to a percentage loss of 10% (2019: 11%). The electricity losses are as result of technical losses and illegal connections

35. General expenses

Advertising	654,917	1,493,562
Auditors remuneration	1,442,124	1,565,680
Bank charges	565,534	279,734
Cleaning	696,267	139,596
Audit committee fees	35,151	49,157
Consulting and professional fees	1,292,428	3,272,379
Legal expenses	-	1,321,299
Electricity and refuse	554,213	1,035,155
Expanded public works programme	1,029,604	326,796
Insurance	1,310,869	980,161
Licence fees	109,247	200,364
Fuel and oil	2,084,923	2,052,235
Postage and courier	1,363	5,026
Printing and stationery	735,276	627,092
Public participation	2,705,764	4,362,729
Refreshments	670,200	73,355
Repairs and maintenance	11,377,557	8,913,666
Rental of office equipment	500,248	403,454
Security (Guarding of municipal property)	23,098,801	23,432,543
Subscriptions and membership fees	1,535,026	940,108
Telephone and fax	1,046,613	1,302,870
Transport	7,093	22,666
Training	2,016,350	1,905,907
Travel and subsistence	3,511,428	5,835,907
Uniform and overall	826,298	1,454,391
Ward upliftment and LED projects	3,532,876	2,809,067
Water and sanitation	190,842	641,011
Hire of equipment	157,504	36,371,760
Other expenses	8,066,233	6,135,386
	69,754,749	107,953,056

36. Fair value adjustments

Investment property (Fair value model)	2,759,000	6,671,000
--	-----------	-----------

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
37. Auditors' remuneration		
Fees	1,442,124	1,565,680
38. Cash generated from operations		
Surplus (deficit)	41,722,180	(3,100,743)
Adjustments for:		
Depreciation and amortisation	22,759,122	13,597,843
Gain on sale of assets and liabilities	-	332,852
Actuarial loss / gain	158,930	(1,029,542)
Surplus on distribution of non-cash assets to owners	(124,588)	-
Fair value adjustments	(2,759,000)	(6,671,000)
Interest income	(1,844,995)	(1,520,370)
Finance costs	2,041,158	2,214,936
Impairment deficit	32,183	611,363
Debt impairment	14,295,976	19,114,494
Movements in long service award	-	166,933
Movements in retirement benefit assets and liabilities	(196,458)	(1,067,536)
Movements in provisions	2,495,273	399,845
Other non-cash items	(23,750,360)	-
Changes in working capital:		
Receivables from exchange transactions	1,897,330	857,258
Receivables from non-exchange transactions	(8,018,809)	(8,759,921)
Prepayments	(202,855)	1,300
Payables from exchange transactions	2,948,726	10,125,249
VAT	691,741	(57,874)
Unspent conditional grants and receipts	3,861,882	6,046,513
Consumer deposits	(90,185)	(63,612)
Long term loans- current portion	(2,508,526)	1,815,527
	53,408,725	33,013,515

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
39. Commitments		
Authorised capital expenditure		
Approved and contracted for		
• Property, plant and equipment	42,155,794	83,490,959
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	-	8,344,164
Total capital commitments		
Approved and contracted for	42,155,794	83,490,959
Not yet contracted for and authorised by accounting officer	-	8,344,164
	42,155,794	91,835,123
Authorised operational expenditure		
Approved and contracted for		
• Operating commitments	15,068,341	33,916,015
Total operational commitments		
Approved and contracted for	15,068,341	33,916,015
Total commitments		
Total commitments		
Authorised capital expenditure	42,155,794	91,835,123
Authorised operational expenditure	15,068,341	33,916,015
	57,224,135	125,751,138

The committed expenditure has been disclosed exclusive of VAT. This committed capital expenditure relates to property, plant and equipment as well as operating expenditure will be financed by government grants.

40. Contingencies

Contingent liabilities

Trust and Trustees

Enforcement of sale agreement concluded with the municipality	-	22,654,755
PON141		
Disconnect error	55,369	55,369
PON149		
Tax Bill	-	58,351
	55,369	22,768,475

Contingent assets

Elam Investments

Payment made for accommodation during SALGA games	164,480	164,480
---	---------	---------

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
-----------------	------	------

41. Related parties

Relationships

Key Management personnel

Councillors

Senior managers

Refer to Remuneration of councillors note

Refer to Employee related costs note

There were no related party transactions that were not at arms length during the financial period.

42. Change in estimate

Property, plant and equipment

In the current period management have revised the discount rate used to calculate the present value of provision of rehabilitation of landfill site from 6.6% to 10.92%. The effect of this revision decreased the finance charges by R418 809, resulting in a net finance charge of R43 368 being recognised in the current financial year.

43. Prior period errors

Certain comparative figures have been restated due to errors identified in the current year. The effects of the restatement are as follows:

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
43. Prior period errors (continued)		
Accumulated surplus		
Audited Balance	-	484,252,444
Correction of error	-	(92,877,080)
Restated balance	-	391,375,364
Receivables from exchange transactions		
Audited Balance	-	8,821,681
Correction of error	-	1,590,682
Restated balance	-	10,412,363
Statutory receivables from non-exchange transactions		
Audited Balance	-	75,159,422
Correction of error	-	(31,410)
Restated balance	-	75,128,012
Actuarial gains/losses		
Audited Balance	-	(1,039,430)
Correction of error- Raising of input VAT	-	9,888
Restated balance	-	(1,029,542)
Investment property		
Audited Balance	-	101,336,000
Correction of error	-	(33,505,000)
Restated balance	-	67,831,000
Property, plant and equipment		
Audited Balance	-	374,961,849
Correction of error	-	(60,989,197)
Restated balance	-	313,972,652
Payables from exchange transactions		
Audited Balance	-	53,290,394
Correction of error	-	1,408,025
Restated balance	-	54,698,419
Service charges		
Audited Balance	-	49,948,431
Correction of error	-	(252)
	-	49,948,179
Rental of facilities and equipment		
Audited Balance	-	595,149
Correction of error	-	1,508
Restated balance	-	596,657
Interest received- trading		
Audited balance	-	10,906,497
Correction of error	-	(1,161)
Restated balance	-	10,905,336

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
43. Prior period errors (continued)		
Property rates		
Audited Balance	-	37,551,080
Correction of error	-	(30,249)
Restated balance	-	37,520,831
Fair value adjustments		
Audited Balance	-	(11,331,000)
Correction of error	-	4,660,000
	-	(6,671,000)

44. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Capital risk management

The municipality objective when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the municipality consists of debt, which includes borrowings (excluding derivative financial liabilities) disclosed in note 12, cash and cash equivalents in note 3 and equity as disclosed in the statement of financial position. There are no externally imposed capital requirements. There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements for the previous year..

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	2020	2019
Consumer deposits	1,995,512	2,085,697
Trade payables from exchange transactions	58,623,799	54,698,419
Current portion of loans	4,002,568	4,000,070
Non- current portion of loans	2,710,586	2,655,301
	67,332,465	63,439,487

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
-----------------	------	------

44. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2020	2019
Cash and cash equivalents	29,282,710	7,166,587
Trade and other receivables from exchange transactions	121,688,403	106,048,695
Statutory receivables from non- exchange transactions	99,509,081	85,042,417

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

45. Going concern

We draw attention to the fact that at June 30, 2020, the entity had an accumulated surplus (deficit) of R 389,909,242 and that the municipality's total liabilities exceed its assets by R 389,909,242.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

46. Events after the reporting date

There were no subsequent events

47. Unauthorised expenditure

	2020	2019
Opening balance	16,177,098	16,177,098
Current year expenditure	-	1
	16,177,098	16,177,099

The above unauthorised expenditure within the votes is as a result of year-end accounting transactions not budgeted for. This unauthorised expenditure will be tabled in as special adjustment budget when the annual report is tabled in accordance with section 23 (6) of the budget and reporting regulations despite the significant overspending on some of the votes, the total expenditure exceeded the budget by an insignificant amount.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
-----------------	------	------

48. Fruitless and wasteful expenditure

Opening balance	-	-
Add: Current year- interest and penalties	1,730,200	1,546,858
	12,337	183,342
Closing balance	1,742,537	1,730,200

The fruitless and wasteful expenditure incurred during the current year has not yet been presented to council. The following incidents occurred in the previous year and have not yet been finalised.

Fruitless and wasteful expenditure relates to interest and penalties on late payments.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand

2020

2019

48. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings Reported to council		
Interest on late payments		12,337	183,342

49. Irregular expenditure

Opening balance as previously reported	125,591,763	121,037,759
Prior year irregular expenditure identified in the current period	-	801,031
SCM processes not followed	-	3,752,973
	125,591,763	125,591,763

Incidents/cases identified in the current year include those listed below:

Disciplinary steps taken/criminal proceeding

All irregular expenditure identified was reported to Council

Breakdown

SCM processes not followed

2020

2019

- 3,752,973

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	80,280	-
Current year subscription / fee	766,738	891,030
Amount paid - current year	(766,738)	(810,750)
	80,280	80,280

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
-----------------	------	------

50. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Current year subscription / fee	1,442,124	1,565,680
Amount paid - current year	(1,375,508)	(1,565,680)
	66,616	-

PAYE and UIF

Opening balance	1,245,410	1,924,699
Current year subscription / fee	17,597,557	14,915,407
Amount paid - current year	(17,597,557)	(15,594,696)
Amount paid - previous years	(1,245,410)	-
	-	1,245,410

Pension and Medical Aid Deductions

Opening balance	414,674	1,642,802
Current year subscription / fee	17,498,062	14,579,079
Amount paid - current year	(15,987,355)	(15,807,207)
Amount paid - previous years	(414,674)	-
	1,510,707	414,674

VAT

VAT receivable	929,885	1,621,626
----------------	---------	-----------

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

No Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020 and 30 June 2019:

51. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements

Section 36 Deviations

Sole supplier- s36(1)(a)(!!)	797,095	98,961
------------------------------	---------	--------

52. Budget differences

Material differences between budget and actual amounts

Material differences was considered for variances above 10% in the budget statement.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
-----------------	------	------

52. Budget differences (continued)

Revenue

Licences and permit decreased due to licensing department was shut down during lockdown

Other income decrease due to some of the items were suspended due to CORONA virus

Interest received investments increased due to more money was invested this year

Fines and penalties increased due to law enforcement was implemented during lockdown

Expenditure

Depreciation & amortisation increased due to completed projects that were realised from Work-in- progress

Finance charges increased due to new loans that were raised in the current year

Debt impairment increased due to the qualifying indigent households that were excluded in the calculation of the provision

Transfers and subsidies increased due to grants that were not provided for

Genera; expenses and contracted service decreased due to cost cutting measures